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RR RUEHWEB

DE RUEHMU #0453/01 0512154
ZNR UUUUU ZZH
R 202154Z FEB 07
FM AMEMBASSY MANAGUA
TO RUEHC/SECSTATE WASHDC 9159
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RULSDMK/DEPT OF TRANSPORTATION WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC

UNCLAS MANAGUA 000453

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SUBJECT: NICARAGUA: AMBASSADOR CALLS ON NEW MINISTER OF
TRANSPORTATION AND INFRASTRUCTURE

REF: A. MANAGUA 0384
[1](#)B. 06 MANAGUA 2587

[1](#)1. (SBU) Summary. The Ambassador called on the new Minister of Transportation and Infrastructure Pablo Fernando Martinez Espinoza on February 7 to introduce himself and discuss transportation and infrastructure issues in Nicaragua. The Ambassador explained that the Millennium Challenge Corporation (MCC) is spending \$92.8 million on building roads in the Departments of Leon and Chinandega, and that the United States Trade and Development Agency (USTDA) is funding \$750,000 worth of feasibility studies on the expansion of sea and air cargo facilities. Martinez suggested that USTDA might also want to look at funding a feasibility study on a second runway at the airport, and that the MCC should consider investing in the Port of Corinto.

[1](#)2. (SBU) Martinez outlined the government's policy priorities: fighting poverty, combating corruption, developing democracy, and fostering the private sector. He believes that the government sorely needs to establish a policy on investment -- first defining objectives, then setting investment criteria and establishing priorities. Decrying a ministry and a sector in disarray, Martinez said he wants to develop institutions and industry capacity, and to attract people to the ministry who want to achieve results, are not corrupt, and are willing to learn. End Summary.

[1](#)3. (U) The Ambassador called on new Minister of Transportation and Infrastructure Pablo Fernando Martinez Espinoza on February 7 to introduce himself and discuss transportation and infrastructure issues, especially roads, in Nicaragua. Martinez was joined by Vice Minister Fernando Valle. DCM and Econoff accompanied the Ambassador.

Millennium Challenge Corporation

[1](#)4. (U) The Ambassador opened the meeting by acknowledging that in recent years the U.S. mission had not been very active in areas related to infrastructure. However, this was changing now that the MCC is building roads in the Departments of Leon and Chinandega. MCC road project tenders are starting to flow. Over half of MCC's \$175 million program is funding the construction of primary and secondary roads. The Ambassador underscored that as a member of the MCC Board of Directors, the Minister of Transportation and

Infrastructure is an integral part of what the MCC accomplishes.

15. (SBU) Martinez commented that he is interested in replicating the MCC model in other areas because it keeps programs off budget, therefore avoiding distortions related to legislative and constitutional earmarks for education, the judicial system, and municipal government. (Note: there is no small irony in Martinez's comments, since the Sandinistas imposed most of these earmarks.) Additionally, the model involves the private sector in the development of public infrastructure. Martinez believed that the model might be applied to the construction of a Pacific coast highway between San Juan del Sur and the border of Costa Rica. The Ambassador pointed out that along with a coastal road, one would want to make sure that there is adequate water and power supply to support increased regional development.

Coastal Highway

16. (SBU) Martinez estimated that a new coastal road along the Pacific Ocean would cost on average about \$1 million per kilometer, versus the \$200,000 cost of rehabilitating an existing road, given the need to build the foundation, drainage systems, bridgework, among other requirements. Because the objective of the road was to hasten tourism, economic benefits would accrue to a different measure -- a different kind of traffic.

Expanding Cargo Capacity Under CAFTA-DR

17. (SBU) The Ambassador informed Martinez that the United States Trade and Development Agency (USTDA) is providing a total of \$750,000 to fund feasibility studies on the expansion of cargo facilities at the Port of Corinto and Managua International Airport. Trade under CAFTA-DR had risen to the point where both the port and the airport needed to expand. A lack of adequate infrastructure could adversely affect the country's international competitiveness. To facilitate private sector investment in the ports, the Ambassador noted, USTDA will fund an advisory to help the government draft a ports law. Currently, the ports are relegated to applying general procurement law, which precludes public-private partnerships such as joint ventures, build-operate-transfer projects, and concessioning terminals. Martinez suggested that USTDA might also want to look at funding a feasibility study on a second runway at the airport, and added that the MCC might want to consider investing in the Port of Corinto.

Policy Priorities and Investment Objectives

18. (SBU) Martinez outlined the government's policy priorities: fighting poverty, combating corruption, developing democracy, and fostering the private sector. He believes that the government sorely needs to establish a policy on investment -- first defining objectives, then setting investment criteria and establishing priorities. Until now, he commented, Nicaraguan governments have lacked the vision to do this. One of the problems, he mused, is that Nicaraguans want to do everything at once, when it would be better to do things gradually, but well. As an example, he pointed out that sometimes emergency repair done the wrong way actually destroys a road over the medium term.

19. (SBU) Martinez added that the government has to start counting all of the economic costs of having roads in poor condition including, for example, the cost of killed cattle, road accidents, and the value lost by taking too much time in getting perishable goods like seafood and fruit to market. Taking into account all of these economic costs will help him justify funding road construction.

Sector in Disarray

¶10. (U) Referring to recent negative newspaper articles about the transport sector, Martinez decried what he saw at his ministry as well as in the construction industry. There had been a lack of transparency at the ministry. Contracts had not been drawn correctly. Costs had been exaggerated. Planning had been ignored. Ministry officials often lacked education and training. Coordination with the municipalities had been poor. Institutions had grown weak. Moreover, the ministry had ignored the health of the construction industry and taken no steps to foster greater capacity, e.g., Nicaragua has no laboratory with which to test construction materials or the quality of road construction. Even engineering professors are teaching old technology, Martinez said.

Developing Institutions and Industry Capacity

¶11. (SBU) Martinez said that he wants to develop institutions and industry capacity. He wants to attract people to the ministry who want to achieve results, are not corrupt, and willing to learn. The most important thing, he asserted, is to instill a sense of professionalism. He would like to provide incentives to construction companies to invest in themselves and build capacity in the industry. He hopes to re-establish a testing laboratory at a local university, and work with universities to improve the quality of education for civil engineers.

¶12. (U) The Ambassador wondered if the United States could assist in some way. Could we put together a three-week training program in contract law for the ministry? Could we bring a Fulbright scholar to teach at a local university or some other sort of professional exchange? There seemed to be two immediate needs: construction science and contract law. Martinez showed interest in the possibility of putting together seminars on contract law for officials at his ministry, and perhaps officials from other ministries as well. (Note: the Embassy and USAID are reviewing ideas along these lines.)

Large Projects

¶13. (SBU) The Ambassador asked about some of the large projects reported in the press, such as a canal across the isthmus that would compete with the Panama Canal (Ref B). Martinez quietly indicated his view that it is unlikely that these projects would materialize, but he did say that if a China or a Brazil were interested, it could happen. He admitted that local industry is unprepared for such a large project. Salinas added that a transisthmus oil pipeline might be viable in the medium term.

Biography: Pablo Fernando Martinez Espinoza

¶14. (SBU) Pablo Fernando Martinez Espinoza is well known to Nicaraguan construction and engineering circles. From 1984 to 1990, he was a member of President Daniel Ortega's first administration, serving as Vice Ministry of Construction. In the early 1990s, Martinez founded CEICO SA, a construction company that has received a number of government contracts to build roads and bridges, as well as a dock at the Port of Corinto and an airport on Corn Island. CEICO has also won contracts to maintain and rehabilitate national roads from the government's Roadway Maintenance Fund (FOMAV).

¶15. (SBU) Martinez has already appeared before the National Assembly Committee on Infrastructure and Public Services to discuss the state of the ministry. He claimed that the ministry is bloated and suffers from corruption. He pointed to the fact that contractors regularly go over budget on projects they never finish, while ministry officials ran up large bills on things like personal gasoline allowances. Such finger pointing sessions at the National Assembly have included his predecessors Ricardo Vega Jackson, Ariel Lopez,

and Pedro Solorzano. (Note: Vega Jackson resigned under a cloud of corruption in the fall of 2006, but then promptly pointed the finger at Solorzano, his predecessor and then advisor to President Bolanos (Ref A).)

¶16. (SBU) Martinez has been a member of the Executive Council of the Nicaraguan Chamber of Construction. He holds a degree from the Central American University in Civil Engineering, and has worked as the Dean of the College of Engineering at the same institution. He is one of the founders of the National Engineering University.

¶17. (SBU) Martinez was recommended for the job by the Nicaraguan Construction Chamber and the Architects and Engineers Association. Before becoming Vice Minister of Transportation and Infrastructure, Fernando Valle was the General Manager of the Nicaraguan Construction Chamber.
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